

Message Text

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70

ACTION EUR-12

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E.O. 11652: N/A

TAGS: ENRG, NO

SUBJECT: NORWEGIAN OIL TAX

REF: OSLO 0906

1. IN SEPARATE ACTIONS THE NORWEGIAN PARLIAMENT PASSED
THE GOVERNMENT'S "SPECIAL" OR EXCESS PROFITS OIL TAX PROPOSALS
WITH MINOR MODIFICATIONS AND APPROVED A 25 PERCENT LEVEL
FOR THE TAX. THE MODIFICATIONS IN THE SPECIAL TAX PROPOSAL
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MADE BY PARLIAMENT'S FINANCE COMMITTEE WERE CHARACTERIZED

BY THE ACTING COMMITTEE CHAIRMAN AS SIGNIFICANTLY LIBERALIZING THE GOVERNMENT'S PROPOSAL BUT THE FINANCE MINISTRY, WHICH DREW UP THE PROPOSALS, AND AMERICAN OIL COMPANIES DO NOT CONSIDER THE CHANGES AS FAR REACHING AS THAT. OIL COMPANIES ADMIT, HOWEVER, THAT THE CHANGES ARE HELPFUL, ALTHOUGH THEY HAVE NOT YET STUDIED THEIR FULL IMPLICATIONS.

2. THE FOUR MAJOR CHANGES IN THE TAX PROPOSALS INVOLVE MARGINAL FIELDS, A "STABILITY DECLARATION", FASTER WRITE OFFS, AND NORM PRICES. IN ADDITION, THE GOVERNMENT IS UNDERSTOOD TO HAVE STRENGTHENED ITS COMMITMENT TO REVIEW THE 25 PERCENT TAX RATE IF PRODUCTION COSTS OR OIL PRICES SHOW IMPORTANT CHANGES.

3. ON MARGINAL FIELDS, PARLIAMENT ASKED THE FINANCE MINISTRY TO SUBMIT NEXT YEAR IMPROVED PROVISIONS WHICH WOULD PROVIDE A "SAFETY NET" FOR SMALLER AND LESS PROFIT-ABLE FIELDS. IN ADDITION, A FASTER WRITE OFF OF DEVELOPMENT EXPENSES WAS APPROVED.

4. THE "STABILITY DECLARATION", PROVIDES THAT ALL COMPANIES MUST BE ALLOWED TO EARN REASONABLE PROFITS. THIS DECLARATION IS INTERPRETED AS A GUARANTEE AGAINST NATIONALIZATION.

5. COST WRITE OFFS WILL NOW BE ALLOWED WHEN PRODUCTION STARTS INSTEAD OF WHEN AN ENTIRE INSTALLATION IS COMPLETED. THIS WILL BE OF IMMEDIATE HELP TO THE PHILLIPS' EKOFISK FIELD WHERE PRODUCTION HAS STARTED BUT DEVELOPMENT IS ONLY HALF COMPLETED.

6. THE CHANGES IN THE SYSTEM OF NORM PRICES PROVIDE (A) THAT ALL COMPANIES SHOULD BE HEARD AND CONSULTED BEFORE PRICES ARE FIXED; (B) THE METHOD OF CALCULATING THEM IS NOW SPELLED OUT IN THE LAW INSTEAD OF BEING LEFT TO THE DISCRETION OF THE INDUSTRY DEPARTMENT; AND (C) THAT AN EXPERT BOARD WILL BE APPOINTED BY THE SUPREME COURT IN CASES OF DISPUTE. THE EXPERT BOARD'S FINDINGS WILL LIMITED OFFICIAL USE

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NOT BE BINDING, PRESUMABLY BECAUSE OF LEGAL DIFFICULTIES UNDER NORWEGIAN LAW WITH BINDING ARBITRATION INVOLVING THE GOVERNMENT.

7. THE TAX LAW INCORPORATING THESE CHANGES PASSED WITH ONLY A SMALL MINORITY FROM THE FAR LEFT AND RIGHT OPPOSED. ALTHOUGH NOT SWEEPING, THE CHANGES IN THE GOVERNMENT'S ORIGINAL PROPOSAL BY THE FINANCE COMMITTEE

ARE GREATER THAN THOSE CUSTOMARILY MADE BY PARLIAMENT.
OIL COMPANIES WERE GIVEN A CHANCE TO TESTIFY BEFORE
THE COMMITTEE, AND AN EFFORT WAS MADE TO ACCOMMODATE
THEIR VIEWS IN A PRAGMATIC MANNER. A HOPEFUL SIGN WAS
THE ALMOST TOTAL ABSENCE OF THE DOCTRINAIRE APPROACH
WHICH HAS OFTEN
CHARACTERIZED PARLIAMENTARY CONSIDERATION OF OIL MATTERS IN THE
PAST.
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